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BEFORE THE ARIZONA CORPORATION COMMISSION

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JEFF HATCH-MILLER  
Chairman  
WILLIAM A. MUNDELL  
Commissioner  
MARC SPITZER  
Commissioner  
MIKE GLEASON  
Commissioner  
KRISTIN K. MAYES  
Commissioner

Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION OF  
ARIZONA WATER COMPANY, AN ARIZONA  
CORPORATION, FOR ADJUSTMENTS TO ITS  
RATES AND CHARGES FOR UTILITY SERVICE  
FURNISHED BY ITS WESTERN GROUP AND FOR  
CERTAIN RELATED APPROVALS.

DOCKET NO. W-01445A-04-0650

Staff's Notice of Filing

The Utilities Division ("Staff") hereby provides notice of filing of Staff's Summary of  
Direct and Surrebuttal Testimonies of Staff Witness Ronald Ludders (to be adopted by Darron  
Carlson).

RESPECTFULLY SUBMITTED this 22<sup>ND</sup> day of June 2005.

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The original and thirteen (13) copies  
of the foregoing were filed this  
22<sup>ND</sup> day of June 2005 with:

Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

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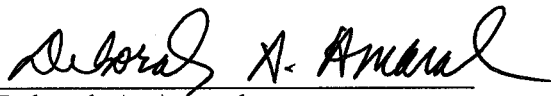
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The Testimony of Mr. Ronald E. Ludders is being adopted by Mr. Darron Carlson. The following summary of issues is set forth in Staff's direct and surrebuttal testimony.

#### RATE BASE ISSUES:

Legal Fees – Staff's adjustment eliminates \$824,374 in legal fees posted to account 330.0 Land and Land Rights because these costs are shareholder expenses.

Working Capital – Staff recalculated the Company's Federal and State Income Tax lag days from 2.52 to 37.0 lag days. Staff has reviewed its prior tax lag days from the Northern and Eastern Group rate cases and found them to be inaccurate. This testimony supports Staff's 37 lag day calculation.

#### OPERATING ADJUSTMENTS:

Purchased Power Adjustment Mechanism ("PPAM") and Purchased Water Adjustment Mechanism ("PWAM") – As with Staff's Eastern Group, Staff continues to support the elimination of PPAM's and PWAM's because it does not meet the criteria established by the Commission.

Rate Case Expense – Staff supports its position that an increase in rates is beneficial to both ratepayers and shareholders and as such the cost burden should be split and assigned to each party.

Rate Design – Staff schedules propose an inverted three-tier rate design based on its recommended rate requirement.